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PUBLIC FINANCE IN
METROPOLITAN TORONTO AND REGION

The Submission of the

BUREAU OF MUNICIPAL RESEARCH

To

THE ONTARIO COMMITTEE ON TAXATION

THE ONTARIO COMMITTEE ON TAXATION

STAFF QUESTIONS

Submission: No. 31
Hearing Date: November 27, 1963.

Submittor: BUREAU OF MUNICIPAL RESEARCH

Page	Para	
9	3	1. Presumably, high weekly wages were necessary to cover high consumer prices and building material costs rather than being reflected in these costs.
12	2	2. Has any study been made to provide evidence that wealth in Metro is increasing while property assessment is decreasing? By how much does personal income in Metro exceed its relative share of population? (Note - Perhaps Table VII on page 24 gives evidence in totals)
15 16	3 3	3. Preliminary study in Ontario cities smaller than Metro shows no direct or apparent relationship between cost of services per capita and population. Does the Bureau have any evidence that what Bollens says happens in larger cities is actually happening in Metro Toronto?
17	2	4. Any evidence available to support the statement that "per capita costs of welfare are higher in the metropolis than smaller or less urban centres"? (Note -- perhaps Table V on page 21 is evidence in total expenditure per capita $196 in Metro vs. $125 for rest of Province)
26	4	5. What were the studies referred to in St. Louis and New York and how did they go about measuring tax paying capacities and service quality indices?
27	3	6. Any evidence to support the statement that "personal wealth is now held more in other forms and less in real property than once was the case."
27	3	7. Does the change mentioned in the swing of personal wealth to other than real property actually go so far as to cause the prospect of a long-term decline in property taxes? The Advisory Commission on Intergovernmental Relations in Washington seems to feel otherwise in its recent publication "The Role of States in Strengthening the Property Tax".
29	2	8. The suggestion is made that the property tax is unable to adjust to industries going out in favour of services in smaller physical facilities. Does the consequent increase in land values reflected in assessments counteract this trend to a significant extent?
29	- 3	9. Is inter-municipal competition for non-residential premium assessment necessarily a bad thing or undesirable? Is it not possible that the total base of non-residential assessment might be higher this way than if the competition did not exist?
30	3	10. While expenditure needs may be greater in high density areas, is it not possible that the extra assessment per acre would offset this added expenditure? The suburbs seem to be having a full share of high rise apartments.
31	3	11. Doesn't the greater competition between stores downtown cause a decrease in ability to pay any form of tax -- not related to any deficiency in the property tax?

Page	Para	
37	4	12. Why is the statement made that the "rates of (property) taxation are approaching the limit that will be generally accepted under present conditions?" Generally accepted by whom? What criteria to determine? (Professor Smallwood suggests that the voters like "hard" service additions and will soon ask for more "soft" service additions such as public housing, etc.)
38	3	13. How would current values in assessment increase the equity of property assessment?
38	4	14. Is the suggestion that some exemptions on property tax be removed or merely shifted to other suburban areas?
39	3	15. Is the suggestion of variable tax rates intending to lower taxes on older property, thereby encouraging maintenance but discouraging replacement, or to increase taxes to force replacement sooner?
41	1	16. In view of the comment of Mr. Hall, is it your view that the sales tax would have to be imposed by all municipalities, although the rates may or may not differ?
42	2	17. Have any proposals in more detail for the automobile tax been worked out, i.e. - trucks?
43	2	18. What are some examples of user charges that might be appropriate in Metro Toronto?
47	2	19. What hope would any council have, when attached to the provincial government, of arriving at acceptable solutions with federal appointees present?

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BUREAU OF MUNICIPAL RESEARCH
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November 18, 1963.

The Chairman and Members,
The Ontario Committee on Taxation,
88 University Avenue,
Toronto 1, Ont.

Gentlemen:

The Bureau of Municipal Research appreciates this opportunity to submit its observations to your Committee. While your terms of reference embrace the entire field of provincial and municipal finance in Ontario, our submission is limited to the consideration of one important aspect of the overall subject as described below.

The Bureau, founded in 1914, is an independent research agency dedicated to the study and analysis of local government and community life in the greater metropolitan Toronto area. It is supported by voluntary subscriptions from non-governmental sources and numbers in its membership 350 individuals and organizations, business and professional firms located in metropolitan Toronto and the rest of Ontario.

This submission was prepared by the staff of the Bureau. It was reviewed by our Council of twenty members, many of whom are themselves deeply involved in the economic and political life of their own community. Their special views have been registered throughout the brief as 'memoranda of comment, reservation or dissent'. The submission thus builds on the collective experience of one group of the Bureau's membership and that of its staff to place before your Committee certain fundamental issues regarding the financial structure of Metro Toronto. It is our belief that these issues must be considered in any study of provincial-municipal finance if the orderly and vigorous growth of this metropolis is to be maintained.

Yours very truly,

Michael D. Goldrick
Director

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SUMMARY

The purpose of the brief is to isolate as far as possible some of the fiscal and closely related functional problems of metropolitan Toronto and, indirectly, the much larger area embracing Toronto and Hamilton. The unique characteristics of the region suggest such an approach since we feel that any enquiry into municipal and provincial taxation in Ontario must single out for special attention the fiscal situation of the metropolitan Toronto-Hamilton region.

Metro Toronto is extremely important to the nation and the province as a centre for economic, social, and cultural life. Every measure indicates that its significance in these terms will increase in the future. This is particularly so if the prospects for the Toronto-Hamilton axis, or so called Golden Triangle are considered. It is our conviction that the Committee must consider the area in these terms, for its recommendations are sure to strongly influence the future ability of local authorities in the region to maximize the economic activity and satisfactions offered to inhabitants whithin their jurisdictions. The region has unique fiscal problems which require special solutions.

The submission is based on the following propositions which are developed throughout the remainder of the brief:

1. that the requirements in terms of financial resources and service responsibilities of Metro Toronto and region are extraordinary and require special arrangements.

2. that the financial resources available to the metropolis are shrinking in relation to need and that the revenue base of Metro must be broadened and made more flexible to accommodate the requirements of the future.

3. that the sharp distinction between responsibilities of the Province and municipalities, while justified in the case of most municipal governments, is outmoded in terms of Metro Toronto and the Hamilton-Toronto axis, and that a formalized structure for a closer partnership arrangement between Metro and the Province at a public-policy level is necessary.

In order to discuss the financial position of Metro in a proper perspective, a profile of the region in terms of size, function, and wealth is presented with a description showing the fiscal significance of some of the resulting trends. The brief then describes three principal reasons for a metropolis such as Metro having unique financial requirements. The factors are shown to result in five types of fiscal problems with which Metro must contend.

The first problem discussed is the relatively high per capita expenditure pattern in the metropolis and the accompanying intensive exploitation of resources in terms of personal income and real property. Second, the inherent costs of servicing a large urban area are examined, followed by consideration of the third problem -- the diminishing significance of real property relative to community wealth. Fourth, the consequences in a large urban area of relying on a single tax -- the property tax -- and the resulting emphasis of its undesirable characteristics are discussed. * Finally, the implications of massive provincial involvement in Metro

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MEMORANDUM OF COMMENT, RESERVATION OR DISSENT.

*By E. A. Jarrett: "Metropolitan Toronto, as with all other municipalities in Ontario, relies on a single local tax, the property tax, for its expenditures to the extent not covered by government (provincial and federal) grants. These government grants are made from revenues received from many sources including personal income taxes."

affairs, in terms of both financial aid and the regulation of local services are considered.

On the basis of these problem areas, four points are suggested as holding the key to the fiscal viability of the metropolis. One is offered without comment -- the adaptation of inter-municipal administrative arrangements. Another involves the streamlining or general efficiency of municipal administration. The third -- broadening the revenue base of municipalities and increasing the flexibility of municipal taxation -- is developed at some length. It is no longer possible for municipalities, and least of all metropolitan areas, to achieve self-sufficiency in their revenue sources. Transfer payments are inevitable and desirable. But in the interests of vigorous local government, it is important that a significant share of municipal revenues be under the control of the local taxing unit. Thus, all taxes suited to local administration should be fully exploited giving the metropolis adequate revenue and flexibility in its overall tax structure to permit the adaptation of its taxation machinery to the chan= ging nature of the community. Several improvements in the existing real property tax are recommended and a number of innovations in the existing roster of local taxes are discussed.

Finally, a fourth area offering a measure of relief to the fiscal dilemma of Metro is discussed. This is a de= velopment of the third proposition offered above calling for a new concept of local-provincial relations in respect to Metro and the future Toronto-Hamilton conurbation. It is argued that the traditional notion of a sharp division between the operations and interests of the two levels of government is outmoded and impractical today in terms of Metro and the larger region. There is an accelerated interdependence be= tween the Federal government, the Province, and the metropolitan region which demands a new concept of intergovernmental relations. The importance of intimate, fully co-ordinated fiscal and other

planning is of such significance that a formalized structure of co-operative planning at a public-policy level should be evolved before the Toronto-Hamilton region stumbles into the same errors that so many other similar regions have experienced in the past.

2.) THE FUTURE OF METRO

Results from the 1961 Census show that the steady trek from rural to urban areas was maintained at a high level in Canada and accelerated in the south-central Ontario region. By 1961, 70% of Canada's population lived in urban areas.* Over a ten year period, this was an increase in urban areas of 18.5%. In seventeen major Canadian cities, growth was 20% during the period, with the population of the central cities increasing by 11% while suburban areas registered phenomenal gains of 33%. Growth in the large urban centres accounted for 71% of Canada's total population increase. It is forecast that by 1980, only 9% of the Canadian population will be "rural farm" and that the balance, 91% will either live in urban communities or be dependent on them for their livelihood. This rate of urban growth was the fastest of any industrialized, high income country in the world. Metro Toronto and the Hamilton-Toronto region were major recipients of this growth.

Though population growth among urban centres was uneven, the increase in Metro Toronto remained at a very high level averaging 25% in the intercensal period. The overall population growth rate in Ontario was 16.5% for the same period. In 1961, 20% of the total provincial population lived within the 240 square miles of Metro. This was less than 1% of the total area of the province. If an anticipated population increase of 55% occurs between 1958 and 1980, local authorities in Metro will be called on to service a population of 2.3 million. Though estimates differ sharply on this point, many pointing to an even greater population growth, the 1980 population of Metro will be in excess of 30% of the provincial population thus maintaining a steady, long-term trend.

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* Sources: 1961 Census, Metropolitan Toronto Planning Board, Department of Economics & Development estimates.

Past growth and anticipated increases within the Metro area reflect distinct trends as well. Table I shows the striking growth registered in the suburbs of Metro Toronto and the even greater projected population changes in the future -- especially in the so-called fringe areas. The relative decline of the central city stands in sharp contrast in terms of numbers and, as discussed below, age composition.

TABLE I

POPULATION: METRO TORONTO PLANNING AREA

000's

	1951	1958	1980	% increase 1958-80	% of total 1958/1980	
Outer Suburbs	196	510	1,280	151	42	46
City	676	683	685	-	31	24
Inner Suburbs	246	287	335	17	18	12
Fringe:						
Toronto Twp.		54	250	361		
Vaughan Twp.		15	55	264		
Markham Twp.		4	14	250		

Source: Draft Official Plan - Metro Toronto Planning Board, 1958.

The population density within Metro is of course far higher than in other parts of Ontario. In the City of Toronto, there were 19,400 persons per square mile in 1958; in the three outer suburbs (North York, Scarborough, Etobicoke), the density averaged 2,800; and in the nine inner suburbs, there were 12,500 persons per square mile. By 1980, there will be a catching up process. Average density in the City will remain about constant. But with the massive population growth beyond, densities will increase to 7,000 and 14,600 persons per square mile in the outer and inner suburbs respectively. Densities in the 'fringe' areas, the semi-rural townships outside the governmental jurisdiction of Metro Toronto, will

show an even greater rise, increasing to 1,000 persons per square mile.

These basic facts have important fiscal significance for the future. The population growth in the suburbs, with accompanying increases in densities, promises at least a continuation, and probably a heavy increase in the scale of investment in public facilities. Rising densities also suggest growing expenditures on current account in operating and maintenance costs, as well as heavier expenditures for services in health, welfare, and recreation fields commonly associated with dense urban settlement. Population of the City appears to have reached a saturation point; its growth rate falling far short of the provincial average, and the increases registered in the outlying areas.

The economic dominance of the Toronto metropolis is well known and probably will increase in importance, though certain decentralizing processes are at work. A general review of its functions shows that it is the administrative centre of the province and with the anticipated growth in population, an inexorable growth in government administration facilities appears inevitable. The transportation web of Ontario is focused on its south-central region. Proposed new highways and marshalling yards will consolidate the position of Toronto, while creating new and important links throughout the Hamilton-Toronto region. In terms of retail and wholesale trade, especially the latter, it is predicted that the eminence of the region will grow, though it is expected that smaller intra-regional centres will claim an increasing share of the retail trading area.* Toronto has long dominated the manufacturing field in the province but important trends are appearing. In terms of Ontario as a whole, Metro Toronto has increased

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*Spelt, Jacob, Urban Development in South-Central Ontario, Van Gorcum, 1955.

the value of its production of manufactured goods by 4% over the provincial average increase. Yet the number of its employees engaged in manufacturing has decreased -- but by 5.5% less than the general decrease in the manufacturing work force in the province.* However, the growth record of Metro in the value of its manufactured goods in relation to the province is far less than the increases of such growing communities in the Metro area and the Hamilton-Toronto region as Brampton, Richmond Hill and Burlington, to name a few. Also, whereas Metro had less employees engaged in manufacturing in 1960 than 1956, these satellite towns have registered sharp increases. Thus, while the importance of manufacturing in Metro Toronto grows at an above average provincial rate, it is growing even faster in the surrounding region.

Within Metro, a similar decentralizing process is underway. While there was a decrease in the number of employees engaged in manufacturing in Metro of .7%, there was a decline of 11.2% in the City of Toronto. The value of manufactured goods in the City rose by 4%, but this was 10% less than the general increase in Metro of 14%; and while the number of manufacturing plants in Metro increased from 4704 in 1956, to 4741 in 1960, the City experienced a net loss of manufacturing establishments of 440. The movement of manufacturing from the core city to the periphery of the metropolis (experienced by most major cities in North America) is clearly evident from these figures which also suggest that many firms moving from the City go beyond the administrative boundaries of Metro to the smaller centres of growth, though still maintaining strong ties with the metropolis in terms of markets and work force.

The dominance and growth of Toronto in relation to other functions suggest its significance in terms of the province and nation. It is the centre for finance and insurance in

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* MacLean-Hunter, Survey of Markets, 1961.

Canada; the headquarters of most large corporations; and it is acquiring a dominance in the rapidly growing service industries. These functions are primarily centred in the City of Toronto, a situation of significance which will be referred to below.

A number of other indices are important in relation to the future of the Toronto metropolis and the fiscal situation of its region. More than one third of all new building in the province took place in Metro during 1961. About 30% of this share occurred in the City of Toronto where office and apartment building was important, replacing in part, assessments lost through the emigration of manufacturing plants. Though the employment index decreased in Canada and Ontario between 1956 and 1961, it increased 4 points in Metro, primarily in the processing and service industries, reflecting a new diversification of employment throughout the area.

Metro Toronto and Hamilton stood second and third among the largest cities of Ontario in relation to average weekly wages and this position was reflected in high consumer price indices and building material costs. In both cities, and among many municipalities in the adjoining area, personal disposable income is well above the national and provincial average.

Central to the problem of fiscal relations is the pattern of resources of the metropolis expressed in terms of personal income and real property values. Metro Toronto's share of personal disposable income in the province stood at 37.5% in 1961.* Table II shows that the share has increased, at least since 1958, and reference to total personal income figures** indicates that the trend has been a steadily growing one. The four county Toronto-Hamilton region accounts for 47% Of the total personal income received in the province and of this amount, about three quarters was received by residents in Metro Toronto.

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* MacLean-Hunter - Survey of Markets, 1962.
**Department of National Revenue - Taxation Statistics - 1960.

TABLE II

METROPOLITAN TORONTO:

PERSONAL DISPOSABLE INCOME* AND ASSESSMENT**

	% provincial personal disposable	% provincial assessment	% provincial population
1956	n/a	39.4	31.5
1958	36.5	39.0	32.4
1961	37.5	38.7	33.4

Turning to the valuation of real property for municipal taxation purposes, Metro's share of total property assessment in the province has gradually decreased from 39% in 1955, to 37% in 1962 in spite of its rising proportion of the province's population and disposable income. As shown in Table III, the City's share of total assessment within Metro is decreasing and now represents about 46%. On the other hand, the outer suburbs have increased their share from 28% in 1955 to 38% in 1962. The older, inner suburbs have maintained their relative position. Of particular importance is the decline in business assessments incurred by the City reflecting the movement of industry out of the central core area. The outer suburbs have benefited, though unevenly, from a very large average increase in industrial assessment of more than 25%.

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* MacLean-Hunter - Survey of Markets, 1962.
** Municipal Financial Statistics, Department of Municipal Affairs, Toronto.

The pattern of income and real property values indicates that Metro Toronto's share of total provincial disposable income and property assessment is greater than its share of population. But part of this relationship is changing as Metro's share of assessment decreases. While the relative proportion of assessment and income in relation to population is about equal, it appears that Metro's relative share of personal disposable income will increase in significance.

TABLE III

REAL PROPERTY ASSESSMENTS - METRO TORONTO.

	% of total Metro assessmt. 1962	Variation 1955-62	% business assmt. to total assmt. 1962	Variation 1955-62
City	45.8	- 8.8	61.1	-13.7
Inner Suburbs	15.9	+ 1.5	14.5	+ .3
Outer Suburbs	38.3	+10.3	38.2	+26.8

It might be expected that this trend, particularly in terms of business assessment, will be accelerated in the City due to its loss of large property users such as manufacturing plants, and the influx of service industries which consume relatively small amounts of real property.

This profile identifies a number of features which have the utmost importance for the fiscal future of Metro Toronto and region. Population projections indicate a continuation of above average growth of the south-central region of the province. Metro Toronto will bear the brunt of this growth but as densities within the immediate Toronto area build up, population will spill over into the adjoining areas. A similar pattern of growth eastward from Hamilton will result in an accelerated "filling-in" process of a broad band lying between the two centres and possibly beyond Toronto to the east. By 1980, the

process is expected to be well advanced resulting in a continuous conurbation from Toronto to Hamilton having an interdependence of economic and social life. The present relative population decline in the central city areas will continue, being accompanied by large suburban increases and greater densities.

The economic dominance of Metro Toronto and the region in relation to the province is well established and is likely to continue. But there will be important shifts within the area. There is a decentralizing trend in retailing and manufacturing which will have important functional repercussions for the City of Toronto. The loss of manufacturing and processing functions to the immediate suburbs and beyond will change the dominant economic character of the City from "goods handling" to "paper handling" with attendant pressures on communication and transport. The same trend has already affected the tax base of the City since the significance of real property in relation to service industries and financial institutions is far less than with manufacturing. Consequently, the tax base of the City will not respond to its changing functions as it might, if manufacturing and industrial assessments were increasing. The proportion of wealth of Metro, as measured by personal income (and real property) will continue to exceed its relative share of population of the province. However, the share of total provincial real property assessment in Metro is declining in relation to population and income indicating a contraction of the municipal tax base relative to total community wealth. The effects of this trend will be felt most acutely in the central city areas. Municipalities throughout the region, faced with declining tax resources will be forced to compete vigorously for a share of the growing economic base attracted to Metro.

The dispersal of population and economic activity will also require enormous public expenditures for transportation if the specialization and diversity of opportunity, characteristic

of the metropolis, are not to be stifled. Though suburban population densities are bound to increase, new development will still necessitate large per capita investment for basic community services. The core cities face large-scale redevelopment costs if they are to compete with the suburbs and if they are to avoid obsolescence of existing public and private investment. A gradual increase in the age of central city residents and the presence of marginal income workers -- spilling out in many cases into the suburbs -- will place special burdens on the fiscal resources of the metropolis. Expenditures on health, welfare, and recreation are likely to command greater proportionate shares of municipal budgets as the attention of local councils, spurred on by advancing technology, rising incomes, and living standards, turns from the traditional protective and service functions generally associated with municipal authorities.

Metro Toronto will dominate Ontario and much of Canada in the future as it does today. To an increasing degree, its streets and highways will become a part of the nation's assembly line. The efficiency and well-being of the community, its ability to provide adequately for the education, health, mobility, and welfare of its inhabitants will have a significant effect on the vitality of the entire country. While there is every indication that the growth in population and economic eminence of the metropolis will continue, important internal distributive forces are at work which will greatly influence the fiscal ability of Metro Toronto to provide an optimum climate for its continued development.

Of equal or even greater importance are the external effects accompanying the growth of Metro. Residents and industries either attracted by the metropolis and dependent on it for their livelihood, or spilling out from its immediate jurisdiction will fill up the area lying across the Hamilton-Toronto axis. In as short a time as has elapsed since the end of the last World War, a continuous and highly interdependent

community of 3,360,000 persons, having common economic and social ties will have been established.*

Any review of taxation in the Province of Ontario must view the future fiscal requirements of Metro Toronto in this perspective. Because of its unique prospects in terms of geographic size, human settlement, and economic significance, the south-central region of this province will require special fiscal machinery (not to speak of administrative arrangements), if it is to realize its potential. One cannot help but compare the probable future of the region with existing conurbations on the east coast of the United States. By this measure, we could do no better than to make certain that fragmented local authorities, lacking adequate and equitable tax machinery, and being incapable of drafting comprehensive plans for maximum economic and social opportunity of the community, have no place in the future of this region. Flexible taxing measures which recognize the varying economic conditions found within the metropolis and which are based on a jursidiction which reflects the scale of future development are essential to vigorous growth.

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* Department of Economics and Development estimate, 1963.

3.) REASONS FOR THE UNIQUE FISCAL REQUIREMENTS OF THE METROPOLIS

By a number of measures, the position of Metro Toronto and its region is unique in many important respects when compared with other units of municipal government in the province. To even the most casual observer, this can hardly come as a surprise. But it is important to remember that the nature and function of a metropolis and, in fact, its reason for growth, dictate the complexity of its problems.

The metropolis serves as a manifold market place, attracting labour and capital in bewildering variety. It is a place in which choice and specialization are the key to its success as a focus of human productivity and life. To encourage such diversity, maintain it at a high level, and facilitate its easy exploitation by inhabitants, the metropolis must provide a climate conducive to private investment, enterprise, and personal fulfillment. This means that a range of services to property and to people in variety and intensity that is not matched in other urban areas must be provided. The resulting fiscal burden has important implications which place the metropolis in a unique financial position. It is worth examining some of the contributing factors to this situation.

a.) Diversity and level of services

First, a greater range of services, often at a more intensive level must be supplied in the metropolitan area. A recent study commented on this characteristic:

> "Larger cities spend more on governmental services and evidence indicates that the larger the city, the greater the per capita governmental expenditurees. With increasing urbanization, this relation is the source of a problem. Cities faced with limited tax resources and growing populations are confronted with increases in per capita expenditures, not just increases in total expenditures."*

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* John C. Bollens, ed., Exploring the Metropolitan Community, University of California Press, p. 318.

This trend is important and several particular examples might be cited.

The educational system of a metropolis must respond to the insatiable demand generated by the community for specialized skills. It must provide opportunities for the gifted and special facilities for those who are victims of their environment. In terms of police and fire protection services, wide variations in land uses, high densities, and blighted, obsolete neighbourhoods, require specialized equipment, professional skills and high public investment. If development is not to be stultified, the metropolitan areas must be capable of performing many "housekeeping" functions which supply the community with water and power, collect and neutralize its wastes, and guard the physical safety of its inhabitants. Environmental conditions also place special demands on large urban communities for health and welfare services.

These are all examples of services, which often are provided by municipalities smaller than Metro Toronto. But in the metropolis, special problems necessitate a wider range and more intensive provision of such services. In some instances, education might be cited, a wide range of services may result from the choice of the electorate. Yet the important point is that the diversity inevitably appears in the metropolis adding to its financial burden.

b.) A tendency toward higher unit costs of some services

A second factor is the tendency toward higher unit costs of some services in the metropolis than in smaller jurisdictions. The frequency of this condition is difficult to establish. But until municipalities adopt comprehensive systems of performance budgeting and other costing techniques, little in the way of comparative data will be developed. But in at least two or three conspicuous instances, important cost differentials between the record of Metro Toronto and other municipalities illustrate the situation.

Large urban centres are invariably high cost areas and reference to several indices shows that high cost differentials in respect to various services might be expected. The cost of living index in Metro is well above the provincial average; construction costs are high; labour rates are second highest in Ontario; and the average level of disposable income in Metro in 1961 was 35% above the national average. These and other measures show that important costs of labour and supplies, entering into the provision of public services, are higher in the metropolis. Such factors are reflected in the costs of welfare, road construction, and education.

1.) Costs of welfare services are not solely dependent on the population size of the municipality. Extraordinary local conditions of a temporary or continuing nature can be a significant factor. But if these local aberations are eliminated, it is plain that the per capita cost of welfare services is higher in the metropolis than in smaller, or less urban centres.* Though the net cost of welfare services to municipalities usually does not exceed one fifth of total cost, the net local share paid by municipalities in the metropolitan area is relatively higher than in other localities.

A similar situation obtains with expenditures for child care. While total expenditures in Metro Toronto amount to $3.94 per day of care, the trend of costs in other areas, with exceptions due to local peculiarities, is downward.

2.) Somewhat the same situation exists with highway and arterial road construction and maintenance costs. The volume of traffic that must be accommodated and the type of development that roads must traverse in the metropolis, result in great expense on a unit cost basis. This is in spite of the

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* Welfare services here refer to: Old Age Assistance, Blind and Disabled Persons' Allowance, Mothers' and Dependent Childrens' Allowances, Medical and Dental Services, Homes for the Aged (maintenance), Child Welfare (maintenance), General Welfare Assistance, Homemakers and Day Care Nurseries.

fact that rural municipalities spend a greater proportion of their total expenditures on roads than urban areas. Though comparative construction costs of thoroughfares are not available for Canada, the general trend is clear. In Toronto, the grade of the Gardiner Expressway had to be separated at great expense -- approximately $10 million per mile -- from that of local roads -- either above or below -- so that through traffic does not impede the important movements of adjacent local traffic. Such accommodation is not necessary where lower traffic volumes are present. Arterial roads, of the Yonge Street variety, again are more costly to build in Toronto than a comparable road in say, the Town of Renfrew. Reinforced, rigid type pavement and foundation are required where lighter construction and flexible coverings are adequate under less onerous conditions.

The need to maintain maximum road capacities the year 'round requires intensive maintenance and high operating expenditures under the extreme conditions of congestion on city streets. Thus, both construction and maintenance costs of roads throughout the metropolis place a special burden on its resources.

3.) Finally, it costs more -- a good deal more -- to provide the educational services needed in the metropolis.

TABLE IV

OPERATIONAL COSTS OF EDUCATION

Cost per pupil of Average Daily Attendance -- 1961

	A.D.A. Under 1500	A.D.A. 1500 - 3000	A.D.A. Above 3000	Overall Average
Secondary	$564	$556	$619	$588
Secondary Vacational	689	775	746	731

	A.D.A. Under1000	A.D.A. 1000-3000	A.D.A. 3000-6000	A.D.A. Above 6000	Overall Average
Elementary	$304	$296	$296	$373	$351

Source: Ontario Association of School Business Officials, 1962.

Salaries account for roughly 75% of current education expenditures in Metro Toronto. With the high salary rates paid to teachers in Metro, it follows that costs will be high. Salaries for both public and secondary teachers, in most categories, rank first in the province. A few non-urban public school rates are higher.

Salaries and other costs are reflected in Table IV showing expenditures per pupil of Average Daily Attendance. The higher unit cost of the larger urban centres is shown, indicating the need for more intensive educational services and greater specialization.

Each one of these examples is an admittedly crude test of unit cost. The comparisons take insufficient account of service levels or operating and administrative efficiency. Yet it is doubtful that with further refinement, the general trend would be different. The factors of higher unit construction costs and income levels, for instance, suggest that there are implicit costs in metropolitan areas, notwithstanding operational efficiency.

c.) Movement of Goods and People

A third and final contributing factor to the fiscal position of the metropolis is the cost of providing for the movement of goods and people. The system of major expressways rapidly encircling Toronto, linking it with its hinterland, is probably the single, most important factor in influencing the physical configuration of the community. Certainly it is the most expensive. Yet to the capital cost of roadways must be added the capital cost of public transit, particularly subways, if the transportation bill of the metropolis is to be reckoned.

Costly as investment in transportation may be, it is an unavoidable expense if the opportunities for specialization, interdependence, and choice in the metropolis are not to be impaired. The ebb and flow of people to the central city, cross

commuting, and the decentralization of industrial activity are all responses to economic forces which must be encouraged and serviced by public transportation facilities -- at great public expense.

4.) FISCAL PROBLEMS OF THE METROPOLIS

The foregoing, though by no means exhaustive, suggest the causes of the special financial requirements of the metropolis. Involved in this position are five fiscal problems which, if not unique to the metropolitan area, show up in sharp relief within it.

a.) Expenditures and the exploitation of resources

The first fiscal problem to be considered involves the pattern of metropolitan expenditures and resources, and the relationship between them. In Table V, expenditures for all municipalities in the province, Metro Toronto, and its constituent parts, and municipalities in the province excluding Metro are shown for the years 1955 and 1961.

TABLE V

EXPENDITURES OF LOCAL GOVERNMENTS

1955, 1961.

	1955 (000's)	1961 (000's)	Variation %	1955 Per capita expenditure*	1961 Per capita expenditure*	Variation %
PROVINCE	$448,183	857,717	+ 91%	$89.40	$145.00	+ 61%
METRO TORONTO	154,173	306,843	+ 99	118.41	198.00	+ 60
City	91,594	141,471	+ 53	134.30	220.00	+ 61
Inner Suburbs	22,640	38,843	+ 72	84.00	133.00	+ 58
Outer suburbs	38,018	104,060	+274	108.00	168.00	+ 56
PROVINCE EXCLUDING METRO	294,010	550,874	+ 87	79.24	125.00	+ 58

Source: Municipal Financial Statistics - 1955,1961, Department of Municipal Affairs, Toronto

* Based on assessed population.

The Table shows that total expenditures in Metro increased substantially more, between 1955 and 1961, than was the case for municipalities throughout the province. They represent a higher per capita level of expenditures than elsewhere ($198 - $145). However, it is interesting to note that the rate of per capita increase throughout was about equal, ranging between 56% and 61% in the six year period. Great though the difference in expenditure is, the heavy increase in Metro weights the provincial figure which, excluding Metro, is considerably less ($125). By this measure, there is a spread of $73 per capita between Metro and municipalities in the balance of the province in regard to overall per capita spending.

Growth in Metro's expenditures has been great but there are wide divergencies within. Expenditures by the 'outer suburbs' increased by a staggering 274% during the period. This was more than three times the provincial average (excluding Metro). Expenditures in the City increased at a less rapid pace, growing by 53%. Yet in spite of this, per capita expenditures in the City far exceeded those in the rest of Metro and the province. This paradox is explained, in part, by the decline in population experienced by the City.

Table VI illustrates how per capita expenditures, arranged according to services, vary between the large metropolitan area and small urban, and rural municipalities. Though the figures do not necessarily reflect levels of services, which usually are higher in the larger municipalities, they do illustrate the spending desires of residents as interpreted by elected representatives.

TABLE VI.

CURRENT EXPENDITURES PER CAPITA

For Select Urban and Rural Municipalities in Ontario, 1960.
($)

Municipalities	Population	General Govt.	Protection	Public Works	Sanitation & Waste	Health	Welfare	Education	Recreation	Debt	Total
Metro Toronto		10.35	26.03	14.72	11.17	4.19	10.64	61.87	9.43	28.74	188.68
Cities (excluding Toronto) over 250,000		8.68	23.43	9.17	7.66	3.92	8.73	46.85	5.19	26.87	149.82
50,000 to 120,000		10.80	23.82	9.05	9.14	4.39	9.02	44.33	6.98	19.80	146.14
20,000 to 49,999		8.19	19.65	11.72	6.53	2.62	7.24	43.73	6.14	22.34	138.48
under 20,000		8.07	19.98	11.57	5.38	1.85	4.85	45.68	5.24	17.65	127.24
Townships 5,000 and over		5.93	5.52	17.49	.88	.38	2.54	42.29	1.35	9.78	105.38
under 5,000		4.21	1.57	26.61	.17	.30	1.56	29.62	.35	3.95	86.59

* In 1960 there were no cities in Ontario in the population group 120,000 - 250,000

Source: Local Finance, May 1962, Canadian Tax Foundation.

The full effects of these expenditure levels must be measured against the resources by which they are supported. Table VII shows expenditures for the year 1960 as a ratio of personal income and the assessed value of real property for all municipalities in the province, Metro Toronto, and the rest of the province (excluding Metro) thereby revealing the relative burdens which the financial requirements of local government place upon the tax-paying capacities of the jurisdictions shown.

TABLE VII

Local Government Expenditures as a Burden on Resources -- 1960

	Total Local Govt. Expenditures* ($000's)	Ratio Expenditures to Personal Income (%) **	Ratio Expenditures to Value Real Property (%)		
			1955	1960	1962
Province	$790,070	9 %	6.8	8.4	7.9
Metro	285,616	9.7	6.0	7.8	7.6
Rest of Province	504,454	8.8	7.4	8.7	8.2

Source: * Municipal Financial Statistics, 1960, Department of Municipal Affairs, Toronto.
** Taxation Statistics, 1960, Department of National Revenue, Ottawa.

As indicated in Table V, the proportion of expenditures of Metro Toronto, amounting to $307 million in 1961, represented 36% of total expenditures by municipal governments in the province. This high level of expenditure, which substantially exceeds the metropolitan area's share of population, also places a high but uneven burden on its tax-paying capacity. When these expenditures are related to resources, it is shown that an amount equal to 9.7% of personal income in Metro is required to support expenditures. On the other hand, an amount equalling 7.8% of the assessed value of real property was dedicated to the provision of local services by Metro in 1960. By contrast, 9% of the personal income of the province's 6 million people and 8.8% of those living in municipalities outside Metro was required. The same division indicates that 8.4% and 8.7% respectively of the assessed value

of real property was consumed. Variation in the ratio of assessment to expenditures decreased in 1962.

Thus, expenditures in Metro, in relation to personal income, were higher than the balance of the province, and expenditures, as a percentage of assessed values, were slightly lower.

The latter relationship is due in part to a higher per capita value of real property in Metro ($2,403) than in all other municipalities in the province ($1,620), and the province excluding Metro ($1,345). In addition, Metro enjoys a very high level of business assessment ($305/cap) which is not mateched throughout the province ($178/cap.), or in the province excluding Metro ($134). If the effect of business assessment is eliminated, the difference in the ratio of expenditures to the assessed value of real property is reduced to .4% in 1960 and .2% in 1962. But the lower than average burden on real property in Metro also reflects a generally higher level of property valuation in the metropolitan area than in the balance of the province requiring less intensive exploitation of the tax base.

In one respect at least, divergencies between levels of expenditure and fiscal burden are greater within the metropolitan area than is exhibited between Metro and the rest of the province. Unfortunately, data relating personal income to the various divisions of the metropolitan area are not available so that expenditures cannot be compared internally. But an analysis of 1961 expenditures as a ratio of assessment indicates that wide variations exist. The City of Toronto must dedicate 7.9% of the assessed value of its real property to support expenditures in spite of a very favourable balance of business assessment. The outer suburbs devote 7.3% and the inner 6.2%. A range of 1.7% is thereby indicated. To express this effect in dollars, the City of Toronto would have had to reduce its 1961 expenditures by $14 million dollars before reaching the average ratio of expenditures to assessment in Metro of 7.1%.

This analysis of expenditures and resources is revealing. In the first place, expenditures in Metro have increased more rapidly than is the case in relation to all municipalities in the province, presently accounting for more than one third of all municipal expenditures. Within Metro, the increase has been uneven. There have been extraordinary increases in the suburbs but this has been matched by population growth. The City has experienced a relatively modest increase in its level of expenditures but a declining population, and rising costs have resulted in high per capita outlays.

When expenditures are related to resources, expenditures in Metro are greater in relation to personal income than is the case throughout the province and, due to a high level of residential and commercial assessment, a slightly lower than average proportion of its real property assessment. However, significant variations within Metro indicate important differences in realtive burden.

b.) Inherent Costs of the Metropolis

A second major area of fiscal significance lies in what might be called the inherent costs of the metropolis, or its financial efficiency. This general heading suggests a multitude of problems ranging from functional efficiency of civic administration to the application of the community's resources. But a further question of importance concerns the areal scale of the metropolis in relation to the provision and cost of various services.

This is a matter about which little is known but in which interest is growing. Two recent studies, one in St. Louis and another in the New York Metropolitan Region, attempted analyses of this nature. While the conclusions of both studies apply only to the specific areas examined at a particular period of time, it is worth observing that variations in the per capita costs of the services studied depended more on tax paying capacity, service quality indices, and urban densities, than

upon the geographic or population size of the functional area served. Somewhat similar conclusions were reached in both studies.

In any metropolitan community with divided jurisdiction, there is financial inefficiency -- in the duplication of executive bodies, for instance, or possibly in the scale of functional administrative areas although there is no conclusive statistical data showing this. These costs should be recognized where they exist. At the same time, thoughtful consideration should be given to the "social" efficiency of administrative jurisdictions which in themselves may offer satisfactions and controls that are worth their economic price to inhabitants of the metropolis. Nonetheless, there appear to be inherent costs in a decentralized distribution of public authorities in a large urban centre.

c.) Changing significance of real property.

Another problem resulting from the fiscal requirements of the metropolis arises from the fact that the significance of real property as a community asset is changing. This is occuring as technology alters the pattern of real property consumption by some land users and its location throughout the metropolitan area. In addition, personal wealth is now held more in other forms and less in real property than once was the case. The productivity of the property tax faces a prospect of long-term decline. The property tax does not reflect, and cannot be adapted to these changing conditions with a consequent alteration in the fiscal resources of various sections of the metropolis. A few examples will illustrate the point.

Automobiles and rapid transit have wiped out the earlier pattern of residential and employment location. Where workers once were required to live in the immediate vicinity of their place of employment, they can now scatter far beyond. In the same way, industrial and manufacturing concerns have been liberated from the core areas and can locate wherever they like in the knowledge that they will remain accessible to employees and

supplies. Thus, an inhabitant of the metropolis may live in one municipality, shop in another, and work in a third. Where at one time, a resident paid property taxes in the municipality providing him with all the public services he consumed, this is no longer the case. The traditional balance of population, tax resources, and responsibilities has become distorted resulting in unequal burdens in some sections of the metropolis. For instance, many municipalities, especially the central city, derive no direct tax revenues from those who use their services intensively. This is reflected in the fact that 67% of the value of exempt properties in Metro (roads, public buildings etc.) are located in the City of Toronto and 16% of the assessed value of property in the City itself is exempt from the property tax.*

It appears, as well, that with the changing pattern of industrial production, the property tax imposes a greater burden than in the past on the tax paying capacity of some types of businesses in relation to others. Extensive, single story structures now house industrial and manufacturing concerns which require the efficiency of one floor production. The consumption of land by such enterprises is great and the higher property taxes imposed cannot reflect the fact that there is not necessarily an accompanying increased ability to pay.

A further anomaly appears in regard to the changing function of the central core of the City -- its most productive tax resource. We have seen that there has been significant dispersal of manufacturing and industrial activity from the city to the suburbs and beyond. As the metropolis grows, as greater specialization in terms of selling, advertising, negotiating, research, and financing develops, service industries increase in importance replacing the earlier types of land uses. These industries must be in close proximity to one another and to the commercial and government concerns they service. Thus, they cluster in the central business district and in the future are likely to become the predominant function in the area.

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* Municipal Tax Exemptions, Bureau of Municipal Research, April 1963.

Whereas new industries require expanded physical facilities and land areas, service industries act in quite the opposite direction occupying much smaller physical facilities than industrial concerns in relation to the value of their production. As a result, while the central city may, in the future, increase the absolute number of businesses within its jurisdiction, their consumption of real property and consequently their contributions to public funds in terms of property taxes is relatively small. The changing function of the central business district has thereby been accomapnied by an important shift in the balance of the tax base -- and the trend is likely to continue.

In the face of these changes, to which the property tax is unable to adjust, it appears necessary that new flexibility be added to the taxing powers of municipalities. Tax strategy suggests that municipalities should be given access to, and should concentrate their taxation powers on those entities least able to flee the taxing jurisdiction. That is, taxes which recognize changes in the economic use of land and which reflect the ability of subjects to pay -- as well as their consumption of public services -- should be brought into play.

d.) Undesirable characteristics of the property tax.

A number of problems emerge as a direct result of the narrow and inflexible tax base of the metropolis. Though the problems to be discussed are experienced in varying degree by different sized municipalities, they show up in their sharpest relief in metropolitan areas where the demand for services and pressure on revenue sources is greatest.

i.) The property tax, with its differential feature and business surcharge, places a premium on non-residential assessment. The combination of such high tax, and, it is often assumed, low service-cost type development causes intense inter-municipal competition for this sort of assessment. Within the Hamilton-Toronto region, and within the metropolitan area itself,

pressure for industrial development has encouraged 'fiscal zoning' whereby unimproved land is zoned to serve essentially fiscal objectives. The resulting pattern of development, dictated by dependence on real property taxes, may not accurately reflect 'natural' economic factors which otherwise would result in quite different distributions of land uses. Thus, the overriding need for premium assessment may frustrate an efficient arrangement of economic activity in the region.

Competition for non-residential assessment, and fiscal zoning may result in the reservation of unrealistically large tracts of land for industrial development. This not only encourages sprawl but may also lead to the extension of services before they are economically justified, throwing an unnecessary burden on the community-at-large.

ii.) The newer suburban fringe municipalities of Metro have not encouraged residential development of a type which is thought to require higher servicing costs and lower unit assessments. They would prefer high-value, residential development of low density, to more intensive types of land uses. Under present taxing conditions, this response to the pressure of rising expenditures makes financial sense as such development requires less intensive servicing in terms of schools, welfare, and protective services. If there were less reliance on the taxation of real property, and a broader tax base were available to municipalities, the incentive to exclude higher density type residential development that is more within the means of lower income groups would be reduced. The choice of living accommodation and location within the metropolis would be increased for a greater proportion of the population.

iii.) Heavy reliance on the property tax also encourages municipalities to overzone land beyond reasonable foreseeable demand. Evidence of this tendency is quite widespread but shows most clearly in the 'grey' areas ringing the central core of the city. Here quantities of obsolete and decaying commercial and residential properties occupy areas which for years have born premium zoning designations but for which there is little demand.

In the light of the emphasis that must be placed on the property tax by municipal authorities, the desire for high assessment redevelopment is understandable. Yet such overzoning not only deprives the city of areas which might be reconstructed with more modest, though still desirable types of development, but it also encourages speculation and retention of obsolete, low valued properties. Again, the constraints imposed by a narrow tax base are seen to have undesirable side effects.

iv.) Finally, new development and certain existing types of land uses may be adversely affected -- particularly in the core city and its surrounding 'grey areas'. It has already been noted that manufacturing concerns are leaving the city. This is due to a variety of economic forces but it is likely that high tax rates have served to loosen the already weak ties of such enterprises with the city environment. Smaller marginal commercial concerns have also been affected. Caught in the vigorous, competitive cross-fire of the downtown retail giants and their suburban counterparts, these businesses find it increasingly difficult to shift higher property taxes to consumers in the price of their goods.

Though no specific evidence can be offered with

regard to Toronto, it is likely that large redevelopment projects also will become more sensitive to municipal taxes as expenditure levels rise in the central city. Certainly, this has been the case in other cities and the scarcity of proposals for the redevelopment of Queen Street, adjacent to Phillips Square, suggests the possibility of a parallel situation in Toronto.

In other centres, the amount of the municipal levy has been decisive in determining the economic feasibility of major redevelopment schemes. The problem has been that of guaranteeing an investor in extensive capital improvements, a return that would be proportional to the return realized by the owner of an older, depreciated property. One innovation developed to meet this problem is worth mentioning though it is no more than an expedient which seeks to circumvent the basic inability of the proper tax to adapt to the changing fiscal realities of the metropolis.*

Faced with the loss of a $100 million dollar redevelopment proposal because of a very high property levy, authorities in Boston developed a method of taxation that was based on a 'reasonable return on the investment'. The project was exempt from normal property taxation and paid an excise related to anticipated earnings from the property. A similar accommodation was developed in New Jersey providing for fixed-term exemptions from property taxes and annual tax payments amounting to 15% of the gross rental income derived from redevelopment projects. Though a serious question arises as to whether such expedients divert investment from other areas, the fact is that such large projects are relatively inflexible as to location

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* The example is based on a description in, Tax Policy, Volume XXIX, Nos. 7-8-9, 1962.

and could only be constructed in the core of the metropolis and not in other municipalities. This form of taxation is important in so far as it is an attempt to tailor the fiscal machinery of the metropolis to changing conditions, and not the reverse.

v.) A final note might be made of the apparent tendency of the property tax to penalize and discourage the rehabilitation and improvement of private property. If, as it is predicted, the rings of obsolete and decaying property presently surrounding the central core of the city increase , it appears foolhardy not to seek out a means whereby the property tax, or some other fiscal measure, can be used as an instrument of social policy as well as a revenue raising device.

e.) The Provincial Interest.

The final area of fiscal concern to the metropolis, arising from its peculiar revenue and expenditure requirements, involves its relationship to the Provincial Government. The interests of the Toronto metropolitan region and the Province are converging in many important functional areas. The day when local governments administered and were able to finance, a well-defined range of services has passed. Rapid urbanization, the emergence of so-called 'positive' government, and technological change, have radically altered the former balance between municipal responsibilities and revenues. In the face of a more or less inelastic municipal tax structure, and the need to finance certain services from a much wider base, and from a different point in the income stream, there has been a continuous transfer of responsiblities from the local level to the Province. This has been accompanied by marked increases in provincial transfers to municipalities -- usually in the form of conditional grants. But despite these adjustments, municipalities have laboured under mounting financial pressures which indicate increased

direct provincial involvement in local financing in the future. The overall trend was recently summarized by Professor D. W. Slater:

> ".....municipal government expenditures have increased more rapidly than the national output, rising from about 4.9% to 8.3% of GNP between 1950 and 1962. The revenues raised by municipalities have increased from about 3.5% to about 5% GNP. Despite the proportionately more rapid growth in the revenues raised by municipalities than in the value of the national output, the share of municipal expenditures financed by their own revenue-raising activities has fallen steadily, from nearly 70% in 1950 to about 60% in 1962. This growing gap has been filled primarily by increased reliance on transfers from provincial to municipal governments."*

These shifts of responsibility and intergovernmental transfers pose important questions relating to the financial and administrative viability of local government. They are particularly vital to metropolitan Toronto due to its unique role and dominant position in the life of the province and nation. Such a strong mutuality of interest has developed between the Province, the metropolitan area and the Hamilton-Toronto region, that a major realignment of fiscal powers and relationships seems unavoidable.

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* Slater, D.W., Urban Growth and Municipal Finance, The Canadian Banker, Summer 1963, p.13.

5.) TOWARD A SOLUTION

The Brief up to this point has developed three lines of thought. First, it has sketched in a perspective of the Toronto metropolis against which future fiscal requirements must be assessed. Second, three principal reasons for its unique position in terms of expenditures have been cited. Third, specific financial problems with which the metropolis and region must contend have been analyzed.

The discussion has revealed a recurring pattern. The metropolitan area exhibits characteristics which are quite different from other municipalities in the province. The immediate development needs, and certainly the future growth prospects of the entire Hamilton-Toronto region suggest similar unique characteristics. In addition, sharp differences are evident between units of the metropolis, and the region. Few problems occur with equal force or in the same form among the constituent parts. Finally, it is clear that the isolation of fiscal problems from the overall pattern of growth and change is artificial. In fact, questions of finance, policial jurisdiction, and the provision of services are so intricately interwoven, that cause and effect often are indistinguishable. Fiscal and functional problems merge.

It follows therefore, that no single course will assure the orderly and vigorous growth of the metropolis. While certain measures can be taken to provide adequate revenues, equitable fiscal burdens, and fiscal efficiency, ultimate solutions must be broader in their conception. They must be conceived in such a way as to permit the solution of fiscal problems, by providing for a distribution of responsibilities and an administrative framework within which certain financial devices may be effective.

The balance of the brief will consider changes in four areas which are crucial to the financial future of the

metropolitan region. These areas are:

a.) Inter-Municipal organization.

b.) The efficiency of municipal administration.

c.) The adequacy and adaptability of the tax base.

d.) Provincial - metropolitan relations.

a.) Inter-municipal organization

No attempt will be made to examine this very broad question here. Yet the importance of inter-municipal organization in relation to fiscal planning is obvious. Adequacy of revenue for individual units of the region and the collective needs of the area as a whole must be assured.

There is every indication that within a very short time, the Hamilton-Toronto region will constitute a single entity in terms of many planning and functional needs. Yet today, its municipal organization is similar to that of the metropolitan Toronto area prior to 1954. The relative area of the region in relation to the rest of the province, and its overwhelming economic importance strongly suggest the need for co-ordination of its physical growth and resource planning. Though this requirement is directly related to the administrative rationalization of the area, the fiscal implications are inescapable. And, as the Committee has suggested, it is questionable whether effective and lasting financial solutions can be developed in the absence of administrative re-organization.

b.) Municipal administration.

The solution to the financial problems of the metropolis is not automatically to add more revenue sources, to raise rates of existing taxes, nor to increase personnel. Improved efficiency of municipal administration offers substantial savings within the context of existing circumstances. There are some obvious areas that need attention.

In terms of internal operation, municipalities in Canada -- even the vary largest ones -- operate with little

knowledge of their actual or comparative costs. Much more in the way of analysis and costing techniques is required. Municipalities rarely know where they are going or what conditions they are likely to encounter in getting there. The research functions of Metro Toronto, for instance, are largely left to the Metropolitan Planning Board, and Finance Department to undertake as they are able. There is no provision for the continuing, broadly based research which such an urban complex as Toronto requires. The development of high calibre administrative personnel also has been neglected. Municipalities in Canada rely on recruitment techniques and training procedures which in the past probably have produced as good administrative officials as those in other levels of government and private enterprise. But if these procedures are followed in the future, as they are being followed today, it is unavoidable that the competence of municipal administrative staffs will decline relative to those in other sectors.

In a broader context, changes in the organizational pattern of many municipalities would produce greater efficiency and better co-ordination of operation. Long range financial planning is rarely undertaken nor is it integrated with physical planning of the community.

All of these major areas and others such as the mechanization of office management and co-operative purchasing are important in terms of the financial efficiency of municipal operation. Their improvement must be a continuing concern of skilled practitioners trained in the way of municipal administration.

c.) Improving the revenue base.

The productivity of the property taxes is limited. Though property taxes today, when expressed as constant dollars, are no more onerous than they were in the past, it appears that rates of taxation are approaching the limit that will be generally accepted under present conditions. In addition, the

long-term prospects of property as a subject of taxation are declining -- especially in particular areas of the metropolis. Yet public demands for new and better municipal services continue unabated. The problem therefore is how to divert a larger share of resources to local government use, or simply, how to get more funds than the existing revenue system will produce without unduly impinging on private production and individual initiative.

It is also desirable to diversify the roster of taxes available to the metropolis. The undesirable effects of the property tax, some of which have been discussed above, are emphasized by its intensive exploitation. In the absence of diversification, the weight of increasing municipal expenditures will fall more unevenly than ever and inequities will be magnified. The burden should be spread out in a manner which recognizes the important changes that have occurred in the economic base and physical configuration of the community.

i.) Improvement of existing revenue sources. There are a number of improvements that can be effected in existing sources of municipal revenue. Though changes in present assessment practice have little bearing on the productivity of the property tax, use of current values and abandonment of the 1940 basis of valuation would increase public understanding, and the equity of property assessment.

Certain increases in revenue would result from a reduction in exemptions of real property. Within Metro, the highest proportion of tax exempt properties is located in the central city. This share is likely to increase. In the absence of far-reaching financial adjustments, a sharing of this burden is necessary.

It is often suggested that uniform rates of property taxation are outmoded under the conditions of a modern urban community. Those who hold this conviction suggest that the property tax should be available as a fiscal device as well as an instrument for the raising of revenue.

This notion has developed in two ways. First, because property is changing in significance as a measure of total wealth, the property tax should be adapted so that it reflects individual ability to pay. But this proposition has encountered insuperable problems. Another line of enquiry suggests that by means of a judicious system of fiscal incentives, the property tax can be used to encourage desirable patterns of community growth and redevelopment while neutralizing a number of present anomalies resulting from the restricted municipal tax base.

At other levels of government, systems of fiscal incentives are well established but experience with them municipally has not been impressive. This has been due to abuses in their application, such as hidden fixed assessments, and because they have encouraged inter-municipal competition for industry. It is argued that exemptions of the non charitable sort often subsidize those least needing assistance. But if an incentive for desirable development achieves a beneficial community goal -- the retarding of premature obsolescence, or the construction of spacious downtown development, for instance -- the subsidy is surely an acceptable cost.

A system of incentives in the form of variable property tax rates would inject a measure of flexibility into the local tax system that is needed to combat the present tendency of the property tax to discourage maintenance of property in aging areas of the metropolis. In spite of the difficulties involved in establishing a practical, adequately safeguarded system, the price of premature obsolescence of public and private plant is so high, and the threat so imminent (it is estimated that 42% of the housing stock of the Toronto area will be more than 60 years old by 1980) that extraordinary measures are necessary. A codified, uniform schedule, subject to annual review, and reported in a form clearly showing the cost to the community should be possible.

A final improvement in the existing revenue base, to be mentioned here, is possible through a re-examination of

the provincial grant structure. The aim of such an examination would be the development of more sophisticated indices of need. Most grants exhibit what can at best be described as rough measures of need -- road construction grants are an example. What the present grant systems frequently ignore are such subtle but important factors as the age and economic status of inhabitants of a community, the obsolescence of its public and private structures, and the momentum of long established welfare services. In a modern industrial community, such indices have a crucial bearing upon fiscal need -- and resources. Senior government grant structures should recognize these factors.

ii.) New revenue sources. The foregoing suggestions relate to existing sources of municipal revenue. For reasons already stated, it is likely that additional funds, raised on a different basis than at present will be needed.

If new revenue sources are inevitable they must be assessed from three points of view:

a.) Any new tax measure must assist in distributing the burden of municipal expenditures so as to afford the most equitable treatment of all classes of society.

b.) The productivity of any new revenue source must be assured by selecting measures which recognize the changing functions of the metropolis.

c.) New taxes, when added to the existing roster should, to as great an extent as possible, offset undesirable features of other taxes.

With these criteria, the suitability of several fiscal measures should be studied as possible additions to the extractive machinery of the metropolis.

Few taxes are appropriate for general municipal use though the choices available to a metropolitan area such as Toronto are greater. The sales tax is commonly used by large urban centres in North America. Though in an unrefined form, it is a heavily regressive levy, it can, with suitable exemptions,

be an effective tax measure. From the point of view of the municipality, the sales tax is attractive since it can be a productive tax which relieves the intensive exploitation of real property by tapping the income stream at another point. It also offers municipalities a means by which they can tax the constant flow of nonresidents who may work in the municipality but who do not pay property taxes in it.*

Another is the income tax which is receiving more attention as a revenue measure for large urban centres. Increased interest is probably due in part to refinements in collection techniques which now make possible efficient, economical collection of the tax from areas of metropolitan size. It has characteristics which impart to it some of the flexibility and capacity to adjust to changing functions and economic conditions which is a requisite of metropolitan finance. It is difficult for the property tax to maintain revenue levels for the central city in the face of fleeing manufacturing concerns and growth in the service industries whose use of real property is a relatively insignificant factor in the value of their production. The emerging role of the city as a service centre for the metropolis and beyond suggests the use of non property taxes which can tap the earned income or gross receipts of industries relying on the advantages of the central city. It may well be that

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MEMORANDUM OF COMMENT, RESERVATION OR DISSENT.

* By A. E. Hall: "It should be noted that an additional municipal sales tax superimposed on the existing provincial sales tax would raise not only municipal revenues but also the cost of production since many wage and salary demands are directly or indirectly tied to the cost-of-living index. This might make Metro a prohibitively high-cost area and drive industry to nearby locations outside the metropolitan area."

beyond the city, the decline in the relative significance of real property will induce the use of such non property taxes as well.* **

A third tax whose appropriateness to the urban scene has been suggested, is the automobile tax. Many of the pressures and problems of the metropolis -- as well as its advantages -- can be attributed to private motor vehicles. Expenditures for road transportation by the combined provincial and municipal governments of Canada were the second highest expenditure item

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MEMORANDUM OF COMMENT, RESERVATION OR DISSENT.

* By A. E. Hall: "This paragraph makes no reference to the experience of many municipalities in the United States and Canada that have endeavoured to impose municipal income taxes at various times in the past, particularly during the 1930's. The practical difficulties encountered led to the abandonment of most of these measures and a replacement by other forms of taxation. See, for example, Municipal Income Taxation in the United States, by Leon J. Quinto, Mayors' Committee on Management Survey of the City of New York, May, 1952."

** By E. A. Jarrett: "Municipal personal income taxes, once levied in Ontario, were abolished in favour of Provincial personal income taxes because of many objectionable features of the taxing of income at the municipal level. It is sincerely hoped that Ontario will not again allow municipalities the privilege of levying taxes on the incomes of either residents or corporations that are within the boundaries of any municipality, including a metropolitan municipality such as Toronto.

The present sensible collection of taxes by one Federal collection department is obviously the only economical and sensible method.

The division of the proceeds between the Federal and Provincial governments is practical.

However, any attempt to pro-rate the provincial income taxes to municipal areas in the province on a basis of where collected is quite illogical in my opinion.

Because a company has its head office or factory in a certain municipality is no indication of where the income is earned, or even where the employees live. Similarly the income of a resident of a municipality has no relation often to where his income is earned. Distribution by the Province of income taxes on an equitable basis of need throughout the province is the only practical basis of distribution, in my opinion.

The levy of municipal income taxes would encourage the wealthy to move outside areas which might try to levy a fair income tax and it would also again encourage setting up exclusive municipalities for the benefit of wealthy residents to avoid their overall responsibilities to the larger community often many miles from the municipality wherein they may reside.

By all means let's avoid the backward step, the excess cost of enforcement and collection, the inconsistancies, the unfairness and the inequalities of municipal income tax levies, and leave these taxes to the Federal Government for collection and distribution to the Provinces for allocation by grants to municipalities.

to be incurred. In addition to direct costs for streets and highways, the use of automobiles has involved many secondary costs as well, all of which have led to proposals for a flat rate auto tax.

A final area of possible improvement in fiscal resources involves more intensive utilization of user charges. In the United States user charges account for about 20% of all municipal revenues and certainly in Canada, there is abundant opportunity for further development along this line.

All of these measures have characteristics which lend themselves to the needs of the metropolis. Above all else, and when taken collectively together with the property tax, they offer a flexibility and adequacy to the fiscal resources of the community that recognizes its complexity and changing character. When the function of the metropolitan area was simple and on a smaller scale, and when the responsibilities of public authorities were far less diversified and less involved with the shaping of the human environment, a single tax related to real property was adequate for the times. But in attempting to maximize the opportunities for private enterprise and individual satisfaction in the metropolis, a healthy public financial climate must be maintained. In proposing a diversification of the tax base, the object is not so much to simply increase revenue, though this appears to be inevitable, but rather to assure a healthy economy and a vigorous and responsive local government. This implies an adequate revenue base which will permit the provision of the many public services which are essential to community well-being. It also suggests the necessity of planning taxes for the city and not the city for, and by its taxes.

6.) PROVINCIAL-METROPOLITAN RELATIONS

To this point, three measures have been examined which promise some relief to the fiscal problems of the metropolis. But as suggested, there is no single solution. New alignments of local government, greater administrative efficiency and the development of new fiscal formulae, while necessary, can only be of limited ultimate value in the search for long-term improvement in fiscal relationships. A fourth measure, the development of a new theory of metropolitan-provincial relations offers a more lasting solution since it is concerned with the fundamental issues responsible for the dilemma of the metropolis.

The obligations of the province to its inhabitants are carried out in essentially three ways. First, there are responsibilities which are the exclusive concern of the Province. Though some of these functions may intimately concern the metropolitan area -- construction of the 401 trunk highway, for instance -- their provision is outside the jurisdiction of the local authorities. Second, the Province may require the provision of certain services by municipalities, or may participate with them in the discharge of particular functions. This relationship is usually accompanied by grants of provincial funds. Finally, responsibilities may be delegated by the Province to local authorities -- often with an option as to their provision.

The long-term trend shows a distinct growth in the first two areas -- complete provincial responsibility, and an even greater increase in shared local-provincial functions. Areas in which local authorities exercise exclusive control are few and diminishing. In effect, 'local autonomy' and relative self sufficiency of municipalities has given way to an interdependence of provincial and municipal governments in the joint provision of 'municipal' services and regulation of urban life. This overall trend is largely attributable to changes in the role of metropolitan government from the simple maintenance of law, order and

safety to a concern for the social and economic welfare of the community.

The change in the traditional alignment of provincial and municipal responsibilities accompanying this transition has not been smooth. Nor has it been based on a substantive 'theory' of provincial-municipal relations. Accommodations to the new interdependence of government have been highly pragmatic, characterized by competition, deficiencies of revenue, and expedient accommodations of individual problems with little regard to the overall effect on the community or government. The development of a new joint responsibility for subway construction in Metro, and the laborious rationalization of public housing procedures are just two recent examples of such ad hoc adjustments.

At one time in the early history of Metropolitan Toronto, the intimate relations of the Chairman and the Province substituted effectively for a formal co-operative arrangement for consultation and planning. But in the more normal situation today, the advantages of the former arrangement and the deficiencies of the present are plain. There is no formal machinery for the close co-operation between Metro, the Province -- and the growing direct involvement of the Federal government, that is necessary.

The lack of a firm theory lying behind relations of Metro and the Province -- and other municipalities, has accelerated the transfer of responsibilities from local administration to senior levels of government, seriously impairing the viability of municipal authorities. Yet the traditional notion of local autonomy is still retained instead of being recognized as little more than an emotional nostalgia that it has become. The variety and flexibility offered by delegated local administration, and the vigour of decentralized municipal government should be retained and strengthened. But if this is to be achieved, there first must be a careful reappraisal of the three areas of provincial, shared, and local responsibilities. The aim should be to develop a broad theory supporting the

integration of shared responsibilities since it is here that the ingredients of a theory of metropolitan government are to be found.

This brief has shown that the fiscal resources of metropolitan government must be adapted to modern conditions. It also has been suggested that the fiscal base of the metropolis must be strengthened to support the increasing demands that are made on it. Yet fiscal selfsufficiency is neither possible nor desirable. Co-operative arrangements between the province and metropolitan region offer a better distribution of cost while retaining some of the advantages of decentralized control.

No adequate machinery presently exists to handle the growing area of shared responsibilities which include:

education	public transportation
hospitals	pollution control
highways	conservation
housing	land use planning
welfare	emergency measures

Decisions in these functional areas affecting the entire metroplitan region may be made in isolation without reference to their effect on related services. They may be made by individual municipal governments in the region, by the province or by the Federal Government. There is little co-ordination and integrated planning.

The deficiency can only be met by a re-ordering of provincial-metropolitan relations on the basis of a broad policy to guide specific shared relationships in the region. There must be an effort to define with clarity and precision this 'middle ground' and to develop a working relationship between the federal government, the Province, and metropolitan region. Some functions should perhaps be reassigned, not necessarily on a basis applicable to all municipalities, but according to the special requirements of the metropolis. Criteria should be established on which future relationships can be developed.

All this suggests the adaption of formal, institutionalized machinery at a public policy level where the development of the Hamilton-Toronto region, its fiscal relationships and functional responsibilities can be planned, co-ordinated, and shared by the three levels of government.

The form that such machinery might take is indefinite. At one end of the scale, a loose association of representatives of the Province and constituent municipalities in the region could meet informally on a continuing basis to co-ordinate planning and share responsibilities. At the other end, a joint continuing council of federal, provincial and municipal appointees, supported by an office of metropolitan affairs, attached to the Provincial government could act authoritatively in co-operation with the authorities of the region.

Whatever way it is done, such an arrangement would be a decisive step toward assuring the future growth and development of a region which is unique in Canada. But decisive innovations are required if the Hamilton-Toronto conurbation is not to stumble into the errors that have overtaken other similar regions throughout the world.